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Study on consumers' decision-making in insurance services: A behavioural economic perspective

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Justice and Consumers

Objectives of the study

- Collect data and evidence on:
  - The supply of insurance products and services
  - Consumers' decision-making from a behavioural perspective

- Test effectiveness of remedies in helping consumers make better decisions

- Test interest of cross-border oriented consumers and willingness to buy insurance cross-border

- Estimate potential savings for consumers that better choices may bring

Methodology and scope

Products covered:

- Household insurance
- Motor insurance
- Insurance sold as an add-on
- Car rental insurance

Country coverage:

- 10 countries: **FR, DE, IT, LV, LU, RO, SK, ES, SE, UK**
- 12 Focus groups in 6 countries: **DE, IT, RO, SK, SE, UK**
- Online experiment (total sample size 5 400) in 6 countries: **DE, IT, RO, SK, SE, UK**
- Laboratory experiment in 2 countries: **IT, SK** (total sample size 200)

Methodology and scope

- **Task 1: Preparatory Phase**

  to collect qualitative and quantitative data and evidence through

  - Desk research and literature review
  - Stakeholder interviews
  - Focus groups

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Methodology and scope

- **Task 2: Experimental Phase**

  Online and laboratory behavioural experiments in conjunction with **consumer survey**

  - to collect **quantitative evidence** on consumers’ experiences, impact of contract features, ways of presenting information on decision-making, and barriers to cross-border purchasing of insurance
  - to **simulate the process of buying insurance** and **test the effects of remedies** on decision-making

- **Task 3: Measuring potential savings of consumers**

  Experiments, survey, literature, stakeholder and focus group evidence

  - to **estimate** range of consumers' potential **savings that better choices may allow**

Findings – Consumer decision-making in non-life insurance market

Key issues/problems in terms of decision-making:

- Desk research indicated that consumers are **unlikely to compare offers unless alternatives are easily accessible**
- Focus groups confirmed that when taking add-on or car rental insurance consumers were often **unaware that they could select an alternative insurance** other than the one offered
- In the experiment, consumers **accepted often overpriced insurance** presented up-front
- In the experiment, consumers **selected too low an excess**, **failed to select coverage for high impact risks**, and **choose not to buy insurance** even when leaving them exposed to sizeable consequences

Findings – Consumer decision-making in non-life insurance market

Consumer-related factors affecting decision making:

- **Low awareness of contract terms and conditions** (e.g. coverage and obligations of consumer)
- Many consumers **do not read documents properly** and instead **rely on their intuition**
- Low awareness is driven by length and complexity of documents, linked to **the way in which information is provided**
- **Passiveness and inertia** play role in consumers staying with current insurer and not compare the market. **Preference for the familiar** has similar effect

Findings – Consumer decision-making in non-life insurance market

Impact of external environment and purchasing process

- **Comparison websites** are increasingly important source of information
- **Searching and comparing** is very costly in terms of time
- **Length and complexity of documents** makes reading terms and conditions time-consuming
- **Pressure at point of sale** has negative impact on consumer behaviour
- Respondents revisited their choices and **rectified the effect of pressure** when **new information** became available at confirmation stage of experiment

Experiment findings – Effectiveness of remedies in helping consumers make better decisions

- Consumers were significantly more likely to engage with information if provided in **concise, targeted, salient and user-friendly way** (prominently in small portions using pop-ups accessed via '?'-icons)
  - **Focus group evidence confirmed that glossary explaining terms used in insurance offers should be kept short and use consistent terminology**
- **Allowing consumers to adjust contract features at comparison stage** was very effective in improving choices
- **Removing time pressure** at point of sale significantly improved consumers' decision-making

Findings – Effectiveness of remedies in helping consumers make better decisions

- Focus groups highlighted that **personal advice and comparison tools can help** consumers to select insurance matching their needs, to compare offers and to take informed decisions
- However, advice needs to be **objective and unbiased**, and tools should be **comprehensive, allow for complex comparisons and show costs clearly**
- According to stakeholders there is a **need for PCWs to be impartial**

Findings – Factors that limit cross-border insurance purchases

Objective obstacles:

- **Low awareness** of possibility to purchase insurance cross-border
- **Language barriers**
- **Regulatory differences** increase providers' costs and create uncertainty, insecurity and costs for consumers.

Subjective perceptions:

- **Perceived complexity** of completing a cross-border purchase, combined with language difficulties
- Concern about potential **difficulty of solving problems**

Findings – Factors that limit cross-border insurance purchases

Supply side:

- **Barriers to supplying insurance cross-border**, such as need to adapt marketing strategies and difficulty of assessing risks in foreign markets.

Potential savings consumers could make

- The main results of the assessment of potential **premium savings** based on the **experiment data** are shown in the table below
  - For home and motor, selecting too low an excess was the most costly mistake
  - For car rental and add-on, average overpayments varied considerably

Table: Average overpayments

	Among those who overpaid				Among all respondents			
Decision-making error	**Home**	**Motor**	**Car rental**	**Add-on**	**Home**	**Motor**	**Car rental**	**Add-on**
Selecting an overpriced insurer	€91.07	€189.00	n/a	n/a	€28.43	€35.93	n/a	n/a
Selecting too low an excess	€108.00	€120.65	n/a	n/a	€44.46	€47.89	n/a	n/a
Cover specific risk (when unnecessary)	€100.00	€48.36	n/a	n/a	€23.37	€9.77	n/a	n/a
Failed to select the cheapest offer	n/a	n/a	€25.38	€30.09	n/a	n/a	€2.78	€3.89
Took insurance when it was not optimal	n/a	n/a	€35.54	€59.84	n/a	n/a	€18.97	€21.69

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Conclusions

Main conclusions categorised into four broad areas

1. Information, advice and the purchasing process:

- Information should be provided in **concise, salient and user-friendly way**
- Consumers make better decisions when allowed to **pause and reflect** and to **modify choices**
- Consumers believe that **personal advice and comparison tools are effective** remedies, but advice needs to be **objective and unbiased.** Tools should be **comprehensive** and **show costs clearly**
- Decision-making **problems may be caused by time pressure.** Availability of **alternative offers should be salient (**car rental and add-on insurance evidence)

Conclusions

2. Behavioural and consumer-related factors:

- Behavioural biases such as **passiveness, inertia, preference for familiar, and effort required to compare alternatives**, may prevent consumers from getting the best deals
- **Lack of awareness** about **economic advantage of selecting a higher excess**, and of **risks of under-insurance**
- **Low awareness and understanding** of contract terms and conditions; significant share of consumers do not read documents but instead rely on intuition

3. Data availability:

- **Limited availability of information and data relevant to consumers** in some countries hamper targeted measures

Conclusions

4. Factors that limit cross-border insurance purchases:

Objective obstacles:

- **Low awareness** of option to purchase insurance cross-border, **language barriers**, and **regulatory differences** between countries which increase costs and create uncertainty for providers and consumers

Subjective perceptions restricting cross-border demand:

- **Perceived complexity** of completing a cross-border purchase, and concern about **potential difficulties of solving problems** with the insurance provider

Supply side factors:

- **Barriers to supplying insurance cross-border**, such as need to adapt marketing strategies and difficulty of assessing risks in foreign markets

Recommendations

Improve information provision:

- Regularly assess whether standards for provision of information ensure that information is clear, user-friendly and salient
- Consider establishing voluntary codes of conduct that promote good information practices

Facilitate consumers' decision-making in insurance purchases:

- Consider measures to ensure that consumers are given opportunity to reflect on and modify choices throughout the purchasing process
- Where possible, consumers should be made aware of availability of alternative offers during the purchasing process

Address pressure selling:

- Code of conduct could be established to mitigate negative effects of pressure at the point of sale (car rental and add-on insurance)

Recommendations

Harmonise definitions and contract formats:

- Where possible and practical, harmonisation of terms, definitions and contract formats should be encouraged

Establish standards for price comparison websites (PCWs):

- In line with relevant EU legislation, national authorities should ensure that PCWs are transparent, comprehensive, show costs clearly, and enable complex comparisons
- Transparency and comprehensiveness of PCWs could be further investigated at EU and national level, and based on this a scheme to accredit PCWs and/or a quality labelling system could be considered

Make it easier to switch between insurance products:

- Streamlining transfer of a consumer's coverage from one provider to the next could make it easier for consumers to switch some types of insurance

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Recommendations

Collect more data on insurance markets:

- Regular monitoring and systematic collection of detailed data (including on consumers) across the EU to allow authorities to identify and address problems in a targeted manner

In order to encourage cross-border insurance:

- Raise consumers' awareness of possibility to buy insurance cross-border and highlight potential benefits of purchasing cross-border, e.g. by encouraging pan-European comparison sites
- Improve consumers' awareness about their rights and consumer protection available to them when purchasing insurance cross-border
- Insurance providers could be encouraged to reduce language barriers (e.g. where practical and not prohibitively expensive), by providing contract information and customer service in more languages
- Standardised claim forms could be promoted at EU-level for different insurance products